

# The Only Certainty is that Nothing is Certain

## Economic and Market Overview

The past three years have brought unusually good investment performance for most headline equity indices. Take the S&P 500 Index<sup>1</sup>: in 2023, 2024, and 2025, the index posted gains of 26.29%, 25.02%, and 17.88%, respectively. While successive years of double-digit returns are not unprecedented, capital markets tend to move in cycles. It comes as little surprise to us, therefore, that many clients and other investors with whom we speak express growing trepidation about future market performance.

Despite this cautious attitude, the collection of market participants whose buying and selling activity drives short-term stock prices, which in turn drive broad index performance, demonstrated ongoing optimism (albeit tepid, from our assessment) in the opening two months of 2026: in January, the S&P 500 Index notched a gain of 1.45%, and in February, relinquished only 0.76%. Through February 27 — the last trading day in February — the S&P 500 Index had achieved a year-to-date cumulative gain of 0.68%.

However, on February 28, the United States and Israel initiated large-scale military operations in Iran that have resulted in wide-ranging economic consequences. Importantly, seaborne trade into and out of the Persian Gulf has ground to a halt, causing the effective removal of about 20 million barrels of oil per day from global markets; this represents about 25% of daily seaborne oil volumes and about 19% of all global daily oil supply.<sup>2</sup> The liquefaction and export of natural gas has been significantly curtailed, air travel into and out of the region has at times become nearly impossible, and as hostilities between the parties to the conflict continue, risk to regional infrastructure has grown.<sup>3</sup>

Capital markets initially reacted in stride, likely expecting military strikes to be limited and deescalation to take a front seat to offensive action. But as the scope of the conflict expanded and the expected duration of hostilities lengthened, the outlooks of market participants quickly soured due to the increasingly drab economic implications of a protracted, disruptive, and destructive engagement. By March 30, the S&P 500 Index had posted a cumulative loss on the year of 7.05% (markets rallied sharply on March 31, and at the end of the first quarter, the year-to-date loss for the same index improved to only 4.33%).

We believe this reaction illustrates an important point: investors don't like uncertainty. If uncertainty is a proxy for risk, then as uncertainty rises, so does the premium that investors demand for assuming risk. And as investors' requisite returns for assuming risk increase, the prices of investments tend to decrease (all else equal).

Contemplation of investment risk quickly leads to the topic of risk management. How does one avoid assuming undue risk? If investment risk has yet to be assumed (a certain investment or set of investments has not yet been made) and risk increases (or uncertainty grows), how is an investor to react?

<sup>1</sup> For the purposes the S&P 500 Index returns, we refer to the total return figure, which includes performance attributable to both price movements and dividends and other distributions. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: FactSet Research Systems Inc.

<sup>2</sup> <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>; <https://www.iea.org/reports/oil-market-report-december-2025>

<sup>3</sup> We also acknowledge the humanitarian consequences and political implications of this conflict, but respectfully refrain from addressing them in this letter.

Our research team spends a great deal of time studying companies' financial statements and the merits of investment in particular stocks and bonds. Through our ongoing research and management engagement, we believe we develop an information advantage that provides the potential to profit from our ability to assume prudent idiosyncratic risk. We are highly selective about the small number of securities that we purchase in client portfolios, and once we own a security, we monitor it closely. Thorough fundamental analysis of each individual investment position reduces the unknowns about the company in question, which, in turn, reduces the degree of unwanted or unidentified risks in an investment. In this way, we continuously assess the risks associated with each holding, and take action when we believe the balance between risk and reward no longer justifies ongoing investment.

But building a portfolio comprised of fundamentally sound constituent investments is only one part of the formula for long-term investment success. The other equally critical part is "portfolio management" — taking a step back to consider how the constituent components interact with each other, how much capital should be devoted to each investment, and how the overall portfolio might be expected to perform in different macroeconomic environments.

For example, The Coca-Cola Company, PepsiCo, Inc., and Keurig Dr Pepper Inc. might all represent attractive investments in isolation. But it would likely be unwise to hold the securities of all three companies in a single portfolio — one may find oneself unduly exposed to changing consumer preferences, ingredient shortages, or regulatory changes affecting soft drinks. Similarly, holding Walmart Inc., FedEx Corporation, and Marriott International, Inc. in a portfolio could unexpectedly expose an investor to cost pressures associated with labor shortages (each company is among the 12 largest United States-based private employers).

Careful portfolio management helps investors avoid such pitfalls — to see the forest through the trees. An important part of portfolio management — and an outcropping of the security selection process — is determining when to not invest. If investible securities are nowhere to be found, or those that are identified would introduce unnecessary risk when considered in the context of an investment portfolio, we believe the soundest portfolio management decision is to hold cash.

We find ourselves in this position today. Client portfolios have held meaningful — and generally increasing — allocations to cash. This is part of our process, from the perspective of both security selection and portfolio management. With respect to security selection, we ascribe an intrinsic value (or, target price) to each security in which we invest; we buy when securities can be purchased at a significant discount to intrinsic value and sell when securities reach our appraisal of intrinsic value. Said another way, the market (for each security) tells us when to get in, and when to get out. With respect to portfolio management, we are disciplined with how much capital we commit to each idea. If a portfolio held 20 investment positions, and the prices of 10 of those positions reached our appraisal of intrinsic value and were sold, it would be foolish for us to double the amount of capital invested in each of the remaining 10 positions. Instead, we opt to hold cash (or cash-equivalent securities, such as US Treasury bills, which today provide a yield of about 3.6%) and wait for more attractive investment opportunities to surface.

In booming markets, a large cash position is generally a drag on the overall performance of a portfolio (this assumes invested capital provides better returns than capital held in cash). But when markets turn downwards, a large cash position buffers investment performance against price declines (which are often widespread and manifest more quickly than existing investment positions can be liquidated). Perhaps more importantly, however, having cash on hand allows us to quickly make new investments in securities that have "gone on sale."

While we cannot predict future market movements, our observations over the past few weeks suggest that we may have ample opportunity to quickly and decisively deploy cash over the coming months. In fact, several promising investment prospects have advanced in our diligence process in the past few weeks, and the pace of analytical activity has decidedly quickened.

We look forward to keeping you informed as we make new investments through this period of uncertainty. Our portfolio management practices have served us well over past market cycles, and we remain steadfast in our discipline. We constantly remind ourselves that the capital we invest on behalf of our clients represents a lifetime of hard work, and we are committed to investing with commensurate patience and responsibility.

## Portfolio Update

Because we follow a different process than most other investors, it is no surprise that the portfolios we manage had different results than most broad market indices during the quarter. Portfolios exhibited exceptional resiliency despite widespread market disruptions caused by the US incursion into Iran. The concentrated nature of the portfolios we construct allows us to identify companies that are mispriced due to identifiable idiosyncratic factors and, over the long run, generate investment returns that are a result of the fundamental developments at a company, rather than the story *du jour* in financial media. This investment style requires patience with company management's ability to create value, or with other market participants' recognition of value creation. This also requires patience with our investment process, as portfolios hold higher levels of cash when attractive investment opportunities are scant. In both cases, patience has rewarded clients during recent bouts of profound uncertainty, when substantial cash positions have stabilized investment returns and allowed our research team to quickly take advantage of severe price dislocations.

As we noted in our last client letter, Gulf Island Fabrication, Inc. (GIFI) announced in November that it agreed to be acquired by IES Holdings, Inc. (IESC) for \$12.00 per share. On January 20, 2026, that transaction was completed. GIFI is an excellent example of patience that is rewarded. We first invested in GIFI in March 2016, at which time the company was struggling to generate a sufficient volume of fabrication throughput and owned a shipyard business rife with troubled projects. Despite these challenges, we saw great potential in GIFI's strong balance sheet, unique assets, and durable competitive position. Beginning in 2019, a new CEO initiated a turnaround that emphasized disciplined project bidding and refocusing management attention on the company's core competencies. Several years of steady and measurable operating improvements culminated in GIFI's acquisition by IESC (at a premium to our appraisal of intrinsic value).

During the quarter, TreeHouse Foods, Inc. was acquired by European private equity firm Investindustrial. The 4.00% notes due September 1, 2028, which were held in client accounts, were repurchased at par upon consummation of the acquisition. We first invested in this bond in March 2022, when the company's balance sheet was severely misunderstood by most market participants and a declining margin profile was viewed as permanent by some investors. We disagreed, and over time the balance sheet strengthened through asset sales and improved operational execution. Those improvements resulted in an increase in the price of the bonds and a positive outcome for clients who owned the position.

Finally, we sold Himalaya Shipping Ltd. (HSHP) as strong demand for the company's vessels resulted in share price appreciation beyond our appraisal of intrinsic value. HSHP owns and manages a fleet of modern dry bulk vessels engaged primarily in the global trade of iron ore. We first invested in HSHP in October 2022, when a low orderbook for new vessels coupled with an aging global fleet and shifting trade patterns presented a compelling relationship between future vessel supply and demand. Over the course of our holding period, trade patterns for iron ore developed as we expected, and demand for dry bulk shipping outpaced the growth of available tonnage, resulting in improving economic conditions for vessel owners. While we are glad to have exited this position, we remain constructive on the outlook for dry bulk shipping and maintain exposure to the segment through Western Bulk Chartering AS (WEST.NO or WSSTF).

## From Our Library

This quarter, we revisited one of the essential books in any value investor's library: *Margin of Safety* by Seth Klarman. Through relayed investment experiences, Mr. Klarman outlines his thinking on risk and investing with a margin of safety sufficient to buffer an investor against assessed risks. Below are a few excerpts<sup>4</sup> that we find particularly poignant in today's market environment, but applicable throughout economic cycles.

Value investors... are absolute-performance oriented; they are interested in returns only insofar as they relate to the achievement of their own investment goals, not how they compare with the way the overall market or other investors are faring. Good absolute performance is obtained by purchasing undervalued securities while selling holdings that become more fully valued. For most investors absolute returns are the only ones that really matter; you cannot, after all, spend relative performance.

<sup>4</sup> Klarman, S. (1991). *Margin of Safety*. HarperCollins.

Absolute-performance-oriented investors... are willing to hold cash reserves when no bargains are available. Cash is liquid and provides a modest, sometimes attractive nominal return, usually above the rate of inflation. The liquidity of cash affords flexibility, for it can quickly be channeled into other investment outlets with minimal transaction costs.

We revisit these ideas internally almost every day. By tuning out market noise and remaining focusing on the tried-and-true principles of value investing, it becomes much easier to avoid poor decisions driven by market trends or investing fads. Furthermore, maintaining a reserve of cash in frothy markets puts investors in a position of strength, enabling one to act when genuine opportunities arise, without being forced to sell existing positions at the wrong time.

Equally important, buying stocks or bonds at a meaningful discount provides a margin of safety — protecting one from the risks and uncertainties that can never be fully known.

Together, these principles form a disciplined approach grounded not in predicting the future, but in patience, selectivity, and downside protection. That is what ultimately enables investors to preserve — and grow — value for themselves and their clients.

## **Firm Update**

In February, we welcomed Lovey Morse, CFA® to our research team. Lovey brings over two decades of experience as an investor in international equity markets, navigating market cycles across both developed and emerging markets. Known for her thoughtful engagement with management teams and clients, Lovey brings differentiated ideas with a global perspective. Before joining our team, Lovey worked as a Senior Research Analyst at Lord, Abbett & Co. LLC and Federated Hermes, Inc. Lovey resides near Palm Beach, FL, and further expands our knowledge base as we scour the world for new investment ideas. Please join us in welcoming Lovey!

In addition, Stacy Wilke, Naveen Kumar, and Mac MacLaren recently celebrated their ninth, sixth, and fourth work anniversaries, respectively. Each of them has played a significant role refining our firm's research, advisory, and operations functions. Please join us in congratulating them!

We continue to grow our firm by working with exceptional clients like you. If you know of someone that could benefit from partnering with us, we'd truly appreciate an introduction —feel free to give us a call or send us an email.

## **Concluding Thoughts**

With this letter, we have included our annual summary of material changes to Form ADV, Part 2A (there have been none since you last received this disclosure) and our privacy policy. We're happy to answer any questions about these documents.

If your investment objectives or financial situation have changed, please let us know. We're happy to discuss these and assist in planning for both current financial needs and long-term goals.

As always, we are deeply grateful for your ongoing trust and confidence.

Your Investment Research and Advisory Team

Global Value Investment Corporation



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